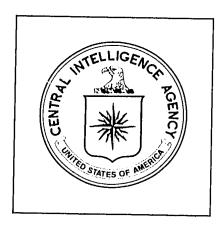




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WESTERN EUROPE - CANADA - INTERNATIONAL ORGANIZATIONS

This publication is prepared for regional specialists in the Washington community by the Western Europe Division, Office of Current Intelligence, with occasional contributions from other offices within the Directorate of Intelligence. Comments and queries are welcome. They should be directed to the authors of the individual articles.

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Base Issue Difficult for Demirel

Evidence is accumulating that, for political and psychological reasons, Turkey is unlikely to put its relationship with the US back on its old footing, even if the arms embargo is lifted.

The exclusive control over the installations that the US once enjoyed is unlikely to be restored. Turkish commanders will probably retain the administrative command they now exercise and it is possible that the Turks may charge the US rent for the installations and/or place them under a "NATO umbrella."

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Foreign Minister Caglayangil, however, this week publicly rejected the possibility of reactiviating the bases under some kind of NATO formula. His statement was probably intended to bring pressure on the US Congress to revise its decision on the arms embargo and to blunt opposition criticisms of its policy toward the bases.

Opposition leader Ecevit had earlier ruled out either a rental arrangement or placing the bases under NATO control. In part with an eye on the upcoming senate elections, Ecevit has been accusing the government of not being far-reaching enough or decisive enough in its

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countermeasures. He has also raised questions about the continued presence of American forces in Turkey. The congressional decision to retain the embargo has given impetus to those elements in Ecevit's party and in Turkey who advocate a non-aligned or at least a more independent policy for Turkey. It is clear that Ecevit and his Republican People's party will push for a diminution of the US role, whether the embargo is lifted or not.

An official of the Republican People's Party has told the US embassy that his party does not at this time advocate either the expulsion of the US troops or the dismantling of US installations. He said that Ecevit's comments on the bases were designed to press the government to clarify its stand--- move that the government has been reluctant to do, preferring to wait out the next congressional vote on the arms embargo.

Demirel is also having trouble with his coalition partner, Deputy Prime Minister Erbakan, who has been privately critical of Demirel's handling of the retaliatory measures against the US bases; he would have preferred stronger action. The deterioration in relations between the two men has reached the point where Demirel can barely bring himself to speak to Erbakan, and the latter--encouraged by the thought that his Salvationist party might show significant gains in the October election--is less willing to compromise.

The two also clashed recently over the selection of 63 new provincial governors—a problem which reportedly almost pulled the fragile coalition apart. The final list of appointments, which was hammered out by Ecevit and Demirel, displeased both President Koruturk and high-ranking officers in the army. The latter were concerned that some of the appointees were dishonest and incompetent; they also objected to the appointment of

certain religious figures, who they claimed represented anti-Ataturkist principles. The list was finally accepted by President Koruturk after some of the more controversial figures were removed.

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New Portuguese Government Causing Deep Divisions in Military

A new Portuguese government was sworn in today, and its composition has caused deep dissension within the ruling armed forces movement.

Prime Minister Goncalves has formed a cabinet which appears to be dominated by radical military officials and front men and supporters of the Portuguese Communist Party. Socialists and popular Democrats, whose parties won 64 percent of the vote last April, were not included.

At the swearing in ceremony President Costa Gomes said the new cabinet was a "transitory solution." Earlier reports had indicated that Costa Gomes is convinced that the Goncalves' government will crumble under the weight of Portugal's many problems. The President reportedly believes that the democratically oriented group will be able to pick up the pieces without much of a struggle when that happens.

Many of the Democrats do not approve of this wait and see attitude. Led by former Foreign Minister Antunes and including many original members of the movement, they have published a document accusing their radical colleagues of seeking to establish a dictatorship. The document, which is said to have been signed by commanders of two military regions, also is being circulated in military units. Socialist Party leader Mario Soares also has weighed in heavily against the new government calling it a collection of "crypto-Communists."

Meanwhile, the crisis of authority at the top has added to the popular lack of confidence in the revolution. Anti-Communist violence is increasing,

particularly in the north, and more is expected. The Catholic church has scheduled two protest marches in northern towns this weekend and is said to be planning a mass march on Lisbon.

Civil disorders have not been confined to those areas of the north where tradition, anti-Communism, and pro-church sentiments are strongest. Towns more associated with small business and light industry also are involved.

Security forces are proving increasingly unable or unwilling to intervene against the demonstrators. If the rioting spreads to Lisbon, however, some military elements and the Communists—who are better armed in the capital—probably would make a stand.

Even if they are able to avoid a popular uprising, Portugal's radical military rulers and their Communist supporters will have to confront other major problems. The return of thousands of refugees from Angola, independence movements in the island territories, and a badly sagging economy are certain to produce additional frictions.

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The Tyrol Issue Returns

Governor Eduard Wallnoefer of the Austrian province of Tyrol this week demanded the right of self-determination for the Italian province of South Tyrol should the Communists assume power in Italy. His statement on August 7 followed a similar call the day before by Peter Brugger, a senator of the South Tyrolese People's Party. Both favor a referendum in South Tyrol, aiming at eventual union with Austria.

The dispute over control of the predominantly German-speaking region has been relatively quiet in the four years since Austria and Italy signed a treaty which virtually ended their long-running quarrel.

Both governments presumably are embarrassed over this resurgence of the South Tyrol problem. Austrian Chancellor Kreisky refused comment on the dispute, and there has been no reaction from Rome. Brugger was rebuked by his party chairman, Sylvius Magnago, who is also provincial governor of South Tyrol, for acting "at a totally wrong moment."

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EC Discusses Monetary Summit

At a meeting this week, the EC committee of permanent representatives agreed that the Nine will consult to work out a common stand prior to a five-power economic summit, should one be convened this fall. In Helsinki last week, French President Giscard sought to arrange a meeting of the US, Japan and three EC states--Germany, France and the UK--to discuss economic and monetary issues.

The Nine reportedly agreed on the desirability of having the three EC states speak at the summit on behalf of the community. The representatives decided that, at an informal meeting in Venice on August 24 to review final EC preparations for a meeting of the International Monetary Fund in early September, the ministers should also discuss economic and monetary issues related to the summit.

The six countries not invited to the summit--led by the Benelux states--reiterated their criticism of the "Big Three" for agreeing to hold a summit without prior consultation. They seem upset over the failure to consult rather than over the idea of a summit meeting.

Rome has been particularly irritated over this issue. Italy currently holds the EC Presidency and it feels strongly that the community, per se, should be represented when one or more of its members discusses economic issues in an international forum. Italian leaders are, of course, also concerned that exclusion from the summit would reflect negatively on the Moro government's standing at home.

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France Prepares for a "Hot Autumn"

France's traditional dire predictions of labor difficulties in the fall are more well-founded than usual. Widespread anticipation of a "hot autumn" is based primarily on sharply rising unemployment, gloomy economic prospects, Giscard's tardy efforts to reflate the economy and the pessimistic outlook of private industry.

President Giscard has tacitly conceded that the unemployment figure will top one million by the end of the year, probably in the fall. By December, the number of jobless will probably reach between 1.2 million and 1.5 million—or some 5 to 7 percent of the labor force. The political impact in a country where the rate of unemployment has traditionally been low—generally less than 2 percent through the 1950s and 60s and only 2.3 percent last year—is bound to be considerable.

Giscard's more pessimistic analysis of the economy in his latest television interview on July 29 was interpreted as an admission that the government's measures to end the prolonged period of stagnation had failed. The government's decision to delay until September 4 adoption of new measures to activate the economy is considered evidence that the government does not appreciate the urgency of the problem.

In addition, the private sector of industry has not responded to the government's investment incentives, suggesting that businessmen are pessimistic about the economy's short-term prospects.

Government officials tend to dismiss most of the public apprehension about the coming weeks as politically inspired by the leftist opposition. These officials take the pessimism of the business world more sericusly, however. Industry's disappointing lack of support for the investment incentive program has spurred the government to undertake new schemes to reactivate the economy. The program that will be announced next month apparently calls for some \$3.5 billion in additional government spending, although it is not clear if the money will be spent this year.

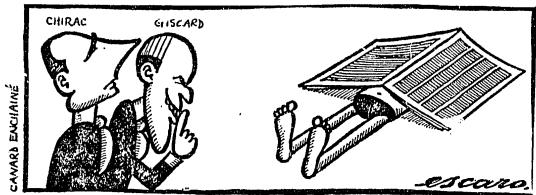
Prime Minister Chirac reviewed the economic situation with labor unions and employers' associations before the August vacation. The usefulness of the meetings has been questioned, but Chirac is personally committed to such consultations and apparently made a serious effort to produce an earnest give-and-take with both sides.

Significantly, the Communist-dominated General Confederation of Labor, which is accused by the government of fomenting labor strife for political motives, avoided economic discussions with Chirac, concentrating instead on alleged violations of trade union rights by management. The General Confederation of Labor is becoming increasingly sensitive about its failure to settle the numerous labor disputes—some 160—that persist throughout France and trade to draw the prime minister into accepting responsibility for ending the strikes. Chirac responded by urging the labor unions to seek reacess through the courts.

Despite Giscard's apparent vulnerability on economic issues, he has proved to be an elusive target for the Left. He has at least two aces up his sleeve: expanded unemployment

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benefits and an infusion of government money into the economy. The latter, especially, is well timed to make its full impact before the labor unions can get the ball rolling after the summer vacation and is the strongest fiscal step taken by Giscard since the recession began.



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